

BUSINESS MODEL AND STRATEGY DEVELOPMENT OF COMMULUS DIGITAL MARKETING AND COMMUNICATION INDONESIA

Arif Fajar Saputra and Suryani Sidik Motik
School of Business and Management
Institut Teknologi Bandung, Indonesia
arif.fajar@sbm-itb.ac.id

Abstract—*The findings of this study will help CIDMAC as new venture in digital advertising industry to formulate their business strategy (Especially in the beginning of their business) to be able to compete with existing competitors and capture many opportunities ahead. The authors propose the formulation of CIDMAC's business model and DIAMOND Strategy as outlined in the implementation of business strategies in short term (1 year) and long term (3 years) that are expected to make CIDMAC business continues to grow and sustain in the long run. Moreover, the findings will give the latest overview of digital advertising in Indonesia.*

Keywords: *Business Strategy, Indonesian Creative Industry, Digital Advertising Agency, Internet Marketing, Digital Marketing.*

1. Introduction

The advertising industry in Indonesia has grown in recent years where it has experienced a tremendous growth. Based on Frontier Consulting Group data on advertising expenditure in Indonesia in 2012, Indonesian advertising expenditure has grown by 22%, in comparison to global advertising growth of 3,8 % in 2011. Moreover, the value of this rapid growth was predicted to rise above 90 trillions rupiahs in the last semester of 2012. This indicates that Indonesia experiences growth in advertising industry of more than 20% in the last 3 years. Although the Indonesian internet advertising expenditure portion is only 1.1 % (which is relatively small compared to the global internet media advertising expenditure of 17.6%) the *Regional Company Advertising Association of Indonesia*, Mr. Mufid Wahyudi stated that the growth on the internet advertising (digital industry) had risen constantly and experienced significant progress for approximately above 100% in 2011. It has more growth than the radio advertising progress in the last 3 years.

By looking at this potential growth in internet industry in Indonesia, many advertising companies and agencies are optimist and motivated. The traditional method of advertising agencies in Indonesia in the past, which applies conventional media has changed and moved to grab the digital advertising market. Looking at this opportunity, PT. COMMULUS DIGITAL INDONESIA initiates "Integrated Digital Marketing Communication", which offers a full range of service of digital marketing and communication with competitive price and high quality.

PT. COMMULUS DIGITAL INDONESIA was established in the mid 2012 and initiated by two companies which expert on their each field, Cerahati digital media as a digital production house expert and Biru Digital Communication as an digital advertising expert. The two companies agreed to merge and state themselves as new company called COMMULUS INTEGRATED DIGITAL MARKETING AND COMMUNICATION (CIDMAC).The concept of CIDMAC is different to other Digital Marketing and Communication in Indonesia. Most Digital Advertising Agencies tailor the concept, production, and distribution by involving many parties, while CIDMAC comes up with one stop service with solid internal parties that is responsible in tailoring concept, production, and distribution (See figure 1 below).

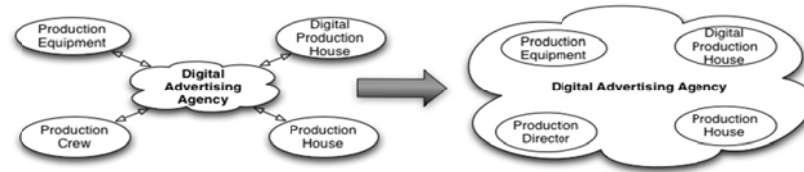


Figure 1. The difference between External and In-House Digital Advertising Agencies
Source : Personal Interview with Mr.Wijoseno (CIDMAC)

By doing this merger,:

1. CIDMAC can reposition themselves as a new company who has stronger operational value chain, since external parties in recent industry is managed by their internal parties. Therefore, they will have a better foundation to grab future opportunities.
2. They can reduce the production cost because of their internal team allows reduction in, function redundancy, share expertise skills and raise capital, and all of them is done internally in CIDMAC.
3. CIDMAC can reduce initial cost because each party has resources (such as: the workstation, production equipment, and talent). Thus, they can combine their resources to lower cost
4. They can increase time-efficiency with fewer procedures than non-merging companies.

CIDMAC has some challenges and issues in running new business as new player in creative industry. Many obstacles and challenges may affect the company's performance in their early stage of business, both internal and external. The obstacles in the internal section are often caused by difficult adjustment of unlimited products that are developed with limited people in CIDMAC. The obstacles in the external factor are often caused by tense competition with new and/or existing competitors.

2. Business Issue Exploration

CIDMAC has some challenges and issues in running new business as new player in creative industry. Many obstacles and challenges may affect the company's performance in their early stage of business, both internal and external. The obstacles in the internal section are often caused by difficult adjustment of unlimited products that are developed with limited people in CIDMAC. The obstacles in the external factor are often caused by tense competition with new and/or existing competitors. Since CIDMAC is categorized as a new player in this industry, there must be strategies that have to be clearly defined in the beginning phase of CIDMAC's business so that the company can determine the strategies of CIDMAC 's Business Model and Strategy Implementation to face the market and competitor.

A. Conceptual Framework

In this part, author develops conceptual framework that may assist them to find root of issues. Good criteria of conceptual framework is to have balance rigor and relevance, it means that it has to have sufficient foundation or concept, and it has to be relevant with the business context. The conceptual framework that is used in this research is useful for mapping the concept of resolving the problem that the authors used for this final project, from the first phase until the final phase. The great overview of the conceptual framework is described by the author in strategic management, which is set of managerial decisions that determine the long term performance of a firm (Wheelen&Hunger,2006:3). It consists of four basic elements:

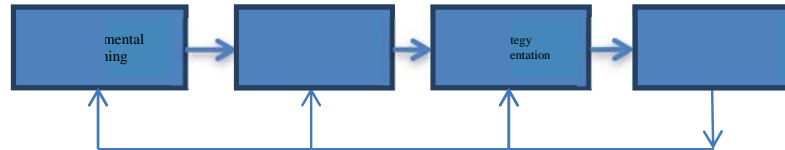


Figure 2. Four Basic Elements of the Strategic Management Process

Source: Wheelen and Hunger

The environmental scanning analyzes both external and internal environments in order to identify where the company position in the industry and in general. It also shows the company what kind of resource that company must have in order to maximize internal resources, and it defines and solves the main problems within the company. After environmental scanning, the next step is to induce strategy formulation by framing the findings in environmental scanning with the main problems so strategic formulation can be created to solve minor and major problems in CIDMAC. Strategy formulation is the development of long-term plans for more effective management of environmental opportunities and threats, and makes powerful internal resource utilizations by specifying achievable objectives, developing strategies, and setting policy guidelines. The last step is Evaluation and Control process in CIDMAC, in which activities and performance results are monitored so that actual performance can be compared with objective performance.

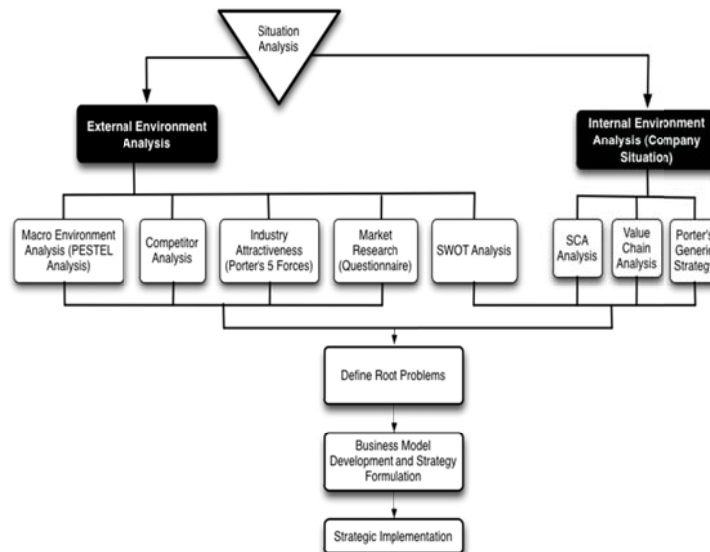


Figure 3. Conceptual Framework

Figure 3 above illustrates the conceptual framework for CIDMAC. Conceptual framework can be used to find the root cause of business issues or challenges and generate several solutions for that. It consists of business (external) situation and company (internal) situation. After analyzing the situations and find issues or business challenges, then development and the alternative strategy are being generated by combining the internal strength to the market condition in external environment by conducting effective business model for CIDMAC. The last phase is the breakdown of strategic implementation for the next three years for CIDMAC. From this conceptual framework, the author expected this final project can contribute a broader view to analyze and to provide the solution into CIDMAC business strategies so that it can help CIDMAC to develop their sustainable competitive advantage to compete and to run their business activities.

B. Method of Data Collection and Analysis

Data in this research is collected from various sources. The person who collected primary data and secondary data is required to conduct this final project on the internal and external situation of the company. Primary data are originated by a researcher for the specific purpose of addressing the

research problem, while secondary data are data that have already been collected for purpose other than the problem at hand (Maholtra, 2007, p.102) The internal data is collected directly from CIDMAC, while the external data is collected from numerous sources and in-depth analysis of the environmental scanning such as, printed media, books, and several online resources.

Data collection method used in this final project was as below:

1. Collected Directly from CIDMAC
2. Questionnaire
3. Literature Study
4. In-Depth Interview with the prospective customer of online advertising and the marketing representative from CIDMAC competitor (digital marketing and communication companies that have existed in the industry)

C. Analysis of Business Situation

In this phase, it is important to know where the recent CIDMAC position is , and what it looks compared to others within the same industry conducting internal and external analysis that affects the business performance. Both factors have significant influence in order to survive in the industry.

The conclusion from all environmental (External & Internal) scanning, the author concludes several points, such as :

- The macroenvironmental from PESTEL Framework described that not many factors may affect CIDMAC business towards bad direction because almost all of the PESTEL analysis showed the good signal from macroenvironmental side.
- From Five Forces analysis the author found that the market is still attractive, because the internet advertising business in Indonesia grows and it is predicted to have a massive growth by 2013. This is also supported by the facts that Indonesian economy grows well. Therefore, people are more likely to change their lifestyle, by using more gadgets, computers and the internet that will increase the company's advertising expenditure in this matter.
- CIDMAC has to improve their Human Resource Management to keep the good people inside the company, since that the critical assets in this business is "the IDEA" that comes from people. So, CIDMAC must ensure that they are always surrounded by the freshest and brilliant idea.
- CIDMAC has a lot of Threat and Opportunity to be grabbed, as we can see from TOWS analysis : CIDMAC has to give the better value and benefit to the customer in term of facing the substitutes and competitions with similar service. Moreover, CIDMAC can take advantage of the internet advertising boom phenomenon in 2013 that has to be well utilized by them.
- From Sustainable Competitive Advantage analysis, CIDMAC has to be more focus on developing their nonsubstituable capabilities which is internal team that has an unlimited and breakthrough creative and innovative ideas combined with a lot of passion (People Development)

Competitor Analysis

From competitor analysis, CIDMAC has to emphasize their differentiation on Web Experience, Fast respond and feedback to the services, increase their portfolio number by increasing the number of clients that will impact on the growing number of CIDMAC's relation, and CIDMAC has to emphasize their differentiation in other aspects such as payment method, their internal team development, and other things. In conducting competitor analysis, the author has interviewed three subjects.

Based on these three people from three different digital advertising agencies and some recent consumers of digital advertising agency services, the author has found the critical factors and competitive advantages in measuring the value of digital advertising company in Indonesia. The author has compiled the entire component by prioritizing and weighting. Here is the key competitive advantage in choosing digital advertising agencies (based on the author's interview with the three subjects from three different digital advertising agencies, and some of recent consumer of digital advertising agency services):

Table.1. Weighted competitive strength digital agency analysis table

Competitor Factors	Importance
Product quality & services	40 %
Show reel / portfolio	15 %
Measurable and achievable (references)	20 %
Human resource	5 %
Brand awareness	5 %
Websites & Social media impression	5 %
Price	10 %
Total	100 %

And here is the list, the big five advertising agency player based on the weighting criteria above:



Figure 2.6. The Best 5 Digital Agency in Indonesia

Source: Author personal data Interview

From the research findings by spreading the questionnaire, the composition of respondents consists of 14 FMCG (Fast Moving Consumer Goods) companies, 4 Retail companies, 2 Financing companies, 6 Communication services companies, 3 Entertainment Companies, 5 Advertising companies, 4 companies from Media Industry, 2 Event Organizers, 3 Automotive companies, 8 IT Companies, 5 Cigarette companies, 2 Transportation services companies. The research findings clearly described about the existing online advertisers, such as :

- The respondents of digital advertising experience has only used and well-known on several CIDMAC product and services such as company website design and development, social media strategy & implementation, because most of respondents target are still assembled and engaged with the advertisement in social media, SEO & Adwords, email marketing, and viral campaign. However, CIDMAC must undertake an extra work for the product that is not famous yet in respondent's perspective. Most of all respondent's reason that they need to provide proven strategies by digital advertising agencies, such as what type of digital strategy or campaign has been done so far and gave good results. Moreover, CIDMAC has to split its focus in acquiring the target market, and CIDMAC must decide which product or services to focus into

The research findings also described about the Non - Existing online advertisers behavior and desire, such as :

- Most of non-existing online advertisers consider budget and price as they main considerations of purchasing decision. This companies might be considered as price sensitive companies. If CIDMAC want to grab this opportunity, they have to prepare a great strategy that can fulfill the company limitation of budget
- The respondents have good opinions regarding the effectiveness of digital advertising and they have effects on sales and performances of the company, although they would say that most of the target market have not yet touched the internet media, therefore they still focus in applying conventional advertising.
- The respondents also feel that if they are referred by their colleagues, they will clearly be explained regarding the detail of quality and achievement on their colleagues past project. Customer satisfaction is very important and satisfied customers will be evangelists for your business / products that they can put positive testimonials regarding one's products or services

This is exactly what CIDMAC must do, to get clients as much as possible and to serve them well so that good words spread by themselves.

- Being asked about their future desire about the people behind their future online advertising activity, the respondents provide various answers and clearly describe that CIDMAC has to educate the market well, the less awareness of the utilization advertising agency that give more benefit on division focused to the company can be the major issue to be appointed.

3. Business Solution

Business solution analysis is an alternative method of a research with questionnaires. It is a combination of external opportunities & threat with internal strengths and weaknesses conditions that have been analyzed and developed. The business strategy solution results in the attitudes of the company in response to the current industry competition. Whereas the company's strategies provide the company's direction regarding the overall options and the overall management of the business and the company's portfolio of products and services that is described in more details in CIDMAC business model canvas. Moreover, there are some points in CIDMAC strong internal resources that can be produced as their sustainable competitive advantage for their businesses in the long run.

The competitive business strategy that fits with CIDMAC visions and missions are strategies to combine their sustainable competitive advantage and to emphasis their differentiation and unique selling point to support the strategy itself. Therefore, some business solutions that are recommended by the author to resolve the root of CIDMAC business problems in long run for increasing the sales and the brand awareness are very important for this kind of new venture. These is the list of business solution strategy:

- ❖ Maximize the Website interface and function
A website can operate not only as a company profile, but to be maximized and to provide the 'wow' moment to the viewers to have a technological experience. In addition, according to another research by the author, there is no kind of a website like that in Indonesia, which means a good chance for CIDMAC, if CIDMAC could create such website.
- ❖ CIDMAC brand positions as "The most innovative full service digital agency with competitive prices which supported by IT and marketing communication experts inside". CIDMAC unique selling points are embedded in customer's perspectives However, since CIDMAC brand positioning will take time to develop. Until then, CIDMAC should remain patience and consistent.
- ❖ Develop CIDMAC DIGITAL COMMUNITY (CDC)
Develop a community that has similar passion with CIDMAC business core. The main activity is to develop regular events that focuses on group discussions and does experimental projects to be utilized by CIDMAC New Business Development. By doing so, the community expects that CIDMAC employees are surrounded by people of the same passion. The community also serves as the CIDMAC employees' center for training (research and development center) CIDMAC
- ❖ Propose the latest payment method in this industry
Although CIDMAC main target market is not price sensitive, the author believes, and based on the research regarding price and the flexibility of payment, it is still considered as the important part in choosing digital advertising agency. Moreover, the pricing strategy allows installments can expand CIDMAC target market. Any companies would reconsider and found that advertising agencies are affordable and flexible since they could pay by installments.

The whole sets of solutions to the root of the problems as described in the paragraph above is to be able to get a clear direction of the company and to be able to develop a strong foundation for CIDMAC as new venture to be able to sustain in the long run.

Based on the nine elements of the business model canvas, the list below is the explanation of CIDMAC business model, starting from Customer Segments to Cost Structure description.

1. Customer Segment : The customer segment of CIDMAC is a company who runs the business, in which its products or services are aware , and focused on their digital marketing and communication through the internet to reach their customers and the company does not have much effort in conducting that activity. Furthermore, any company which has the same value as CIDMAC green concept (paperless and digital based) is their customer segment.
2. Value Proposition : Value proposition must be aligned with customer segment. CIDMAC proposes a full service digital agency in premium quality with competitive prices and innovative payment method which supported by IT and marketing communication experts inside, that will reach the customers' goals measured by doing the latest and the most innovative strategy in digital marketing and communication. Moreover, CIDMAC can also provide the combination of online and offline marketing activity for their customer which will use CIDMAC's sister company to execute the offline marketing activity.
3. Channels distribution : In order to reach the customer, and to communicate and to deliver CIDMAC values, the company creates their distribution channel through direct offering by applying creative email marketing to each target market. It also use its website and SEO in order to grab the opportunity. CIDMAC can use their CDC or their community development to share their values so that the more people are aware about CIDMAC from CIDMAC community development. Moreover, the more frequent CIDMAC projects is included in the competition, the bigger the chances that the brand awareness increases and the more values have been delivered to the customers via the word of mouth and other methods.
4. Customer Relationship : To maintain and engage the customers and to make them repurchase our products continuously, CIDMAC providing 24 / 7 customer services through email response and virtual customer service (between 09.00 – 17.00 hours on weekdays) . The package service is also offered to customers in order to make them purchasing the products and services with an affordable price, and more efficient, The more often they use our products and services, th more they earn points that they will be able to exchange with free service in the future if the points have reached the minimum points for the free services. Moreover, customer can track their project progress and milestones in the website. Customers' newsletters via email and blog updates via website will engage customer spending time in CIDMAC website longer.
5. Revenue Stream : All revenues that CIDMAC receive comes from the selling of the products and services directly to the customer .
6. Key Resources : Fixed asset investment is one of company's resources, which consist of office buildings, stationary, working tools such as computer, digitizer, etc. However, the most important resource or assets is the human resource inside CIDMAC who are visionary, innovative, innitiative, and have problem-solving mindset and values.
7. Key Activities (KA) : The main activities that CIDMAC do are :
 - Direct offering via email and proposing new business development.
CIDMAC must be intense in conducting the direct offering to the customers. New business development division should offer two new concept to be proposed on weekly basis
 - Maintain great quality products and services
The quality products and services must be maintained well, on a monthly basis, to develop key performance indicator.
 - Content Maintance
There must be some internal divisions that are able to maintain the content of the blog website, customer email newsletter, and so much more that are connected to CDC development in keeping the sustainable competitive advantage.
 - Maintain a good relationship with customers and 3rd party (freelancers, expertise, etc) since they are CIDMAC suppliers in the value chain, hence they must have a good relationship with one another.
8. Key Partnership (KP) : To support this business, CIDMAC involves the important stakeholders which consists of freelancers, community (CDC) that is developed by CIDMAC and the ISP (Internet Service Provider) as the basic connection of CIDMAC products and services that have to be maintained properly.

9. Cost Structure (CS) : The cost structure that CIDMAC needs to spend is the operational cost, the salary of the employees, and the initial investment installments that need to be paid.

4. Conclusion and Implementation Plan

Based on the strategy formulation of business solutions in chapter three, the author needs an implementation plan that is adjusted to CIDMAC conditions. It consists of many activities and programs that could be done to improve and to develop the company based on strategies in business solutions based on the author's suggestion for them. For this research, implementation plan is divided into two parts: short term planning and long term planning. The short term planning is used for one year, while long term planning is used for the next two to three years in order to make the company competes and survives.

The short term implementation plan that has to be done by CIDMAC is elaborated in one year time, in the beginning phase, CIDMAC has to develop their basic foundation of their business. The details below will specify the actions that needed to be performed by CIDMAC for the short term plan :

1. Develop Marketing & Sales Tools
 - Maximized Website function
 - Make and Standardize the presentation of each products and services content
 - Make monthly promotional and interesting offerings
2. Develop CIDMAC Standard Operation Procedure (SOP)
 - Make the SOP
 - Listing all the Freelancer and Expertise
 - Develop and Standardize al the digital document
3. Improving the quality of internal resources
 - Office redecoration
 - Corporate Values Development
 - Develop employee's rules
 - Follow digital advertising & marketing exhibition
4. Develop a flexible payment method
5. Develop Knowledge Management Division
 - Built Knowledge Management Division
 - CDC (Cidmac Digital Community) establishment
 - Content Management System (Knowledge Database) establishment
6. Maximize New Business Development Division
 - Focus splitting (30:70) on grabbing the customer
 - Analyze current situation and potential market

The long term implementation plan that has to be done by CIDMAC is elaborated for 3 years period. The details below will specify the actions that needed to be performed by CIDMAC for the long term plan :

1. SOP and corporate rules implementation (3 Years)
2. Focus on human resource management (Annually)
3. The companies performance evaluation (Annually)
4. The company's internal audit (Annually)

Reference

- Kotler, P and Keller, K.L. 2009, *Marketing Management* , 13th ed., New Jersey : Pearson Prentice Hall.
- World Advertising Expenditure (3rd Quarter 2012)
<http://www.zenithoptimedia.com/zenith/zenithoptimedia-forecasts-4-1-growth-in-global-adspend-in-2013/> [Accessed on 5 December 2012].
- Frontier Consulting Group, *Belanja Iklan Media Digital di Indonesia*, Available from <http://www.frontier.co.id/belanja-iklan-media-digital-di-indonesia.html> [Accessed on 10 December 2012].
- Henry, Anthony . A.E.H . 2008, *Understanding Strategic Management* Second Edition, United States : Oxford University Press.
- Plummer, Joe, et al. 2007, *The Online Advertising Playbook "Proven strategies and tested tactics from the advertising research foundation"*, Canada: Wiley.
- Maholtra, K. Naresh. 2007, *Marketing Research : An Applied Orientation*, 5th edition, New Jersey : Person Education.
- Kim, W Chan & Mauborgne R. 2005, *Blue Ocean Strategy*, Boston : Harvard Business School Publishing Corporation.
- Marketeers Magazine June Edition, 2012 , "*Special digital marketing issue*", Indonesia : Hermawan Kertajaya.
- Hamsal, Mohammad, MH, 2012, *Strategy & Strategic Competitiveness*, Jakarta: Mohammad Hamsal.
- Nugroho, Wijoseno & Erlangga, James. Personal Interview by Arif Fajar Saputra, Jakarta : 20 December 2012.
- Wheelen, Thomas, L. & Hunger, J. David., 2006, *Strategic Management and Business Policy : Concepts and Cases*, 10th Edition, New Jersey : Pearson Prentice Hall.
- Osterwalder, Alex & Pigneur, Yves, 2010, *Business Model Generation* , New Jersey : Wiley.
- Silverstein, Barry, 2002, *Business to Business Internet Marketing*, Canada : Jim Hoskins.
- Porter, Michael. E., 1980, *Competitive Strategy : Techniques for analyzing industries and competitor*, New York : The Free Press Mc Millan Inc.
- Coyne, K.P. 1986, *Sustainable Competitive Advantage : What It Is, What It Isn't*, Business Horizons.
- Hambrick Ronald, C. & Fredrickson James, W., *Are you sure you have a strategy ?*
<http://turbo.kean.edu/~jmcgill/havestrategy.pdf> [Accessed on 1 February 2013]